(e) *Programs not covered by this subpart.* Programs in the Catalog of Federal Domestic Assistance that are not covered by this subpart are subject to subpart B of this part.

(f) *Grace period for colleges and universities.* Unless otherwise specified in a Treasury-State Agreement, this subpart does not apply to a State institution of higher education prior to a State's 1995 fiscal year, notwithstanding any other provision of this section.

[57 FR 60676, Dec. 21, 1992, as amended at 59 FR 51855, Oct. 13, 1994]

§ 205.5 [Reserved]

§ 205.6 Funding techniques.

(a) *Zero balance accounting.* Zero balance accounting is a method of transferring Federal funds to a State based on the actual amount of funds that are paid out by the State each day after a disbursement. Neither the Federal Government nor a State will incur an interest liability when this funding technique is properly applied.

(b) *Estimated clearance.* Estimated clearance is a method of transferring Federal funds to a State based on the estimated amount of funds that are paid out by the State each day after a disbursement. Neither the Federal Government nor a State will incur an interest liability when this funding technique is properly applied.

Example: A State mails $1 million in checks to benefit recipients under a Federally funded program. The State has developed the following clearance pattern for the program, based on when checks historically have been presented for payment:

Day	Percentage of dollars paid out
0 (checks mailed)	0
1	0
2	0
3	0
4	40
5	30
6	15
7	10
8	5

On Day 3, the State requests 40 percent of the funds disbursed, or $400,000, and the Federal agency deposits funds in the State account on Day 4 to coincide with the expected presentment of 40 percent of the total disbursement. On Day 4, the State requests 30 percent of the funds to pay for checks presented on Day 5, and so on. Furthermore, if the State draws down $400,000 to pay for checks presented on Day 4, neither the State nor the Federal Government will incur an interest liability if the amount of checks actually presented is more or less than $400,000. Over the long term, the amounts drawn down and the amounts of checks presented for payment will converge to the historical clearance pattern.

(c) *Pre-issuance funding.* Pre-issuance funding is a method of transferring Federal funds to a State prior to the day the State issues checks or initiates EFT payments. When this funding technique is applied, a State will incur an interest liability to the Federal Government from the day Federal funds are credited to a State account to the day the State pays out the funds for programs purposes.

Example: Three business days before a State issues $1 million in checks, it requests $1 million from a Federal agency, which deposits the funds in a State account the next day. The State has developed the following clearance pattern, based on when the State's checks historically have been presented for payment:

Day	Percent of dollars paid out
0 (funds deposited)	0
1	0
2 (checks issued)	0
3	0
4	0
5	40
6	30
7	15
8	10
9	5

The State will owe the Federal Government 5 days of interest on 40 percent of the funds, or $400,000, since that amount will be paid out for checks presented 5 days after Federal funds are deposited in a State account. The State will owe 6 days of interest on 30 percent of the funds, or $300,000, 7 days of interest on 15 percent of the funds, and so on.

(d) *Average clearance.* Average clearance is a method of transferring funds to a State based on the dollar-weighted average number of days required for funds to be paid out by the State after a disbursement. Neither the Federal Government nor a State will incur an interest liability when this funding technique is properly applied.

Example: A State mails $1 million in checks to contractors for a Federally funded program. The State has developed the following clearance pattern, based on when checks historically have been presented for payment, and has determined the average day of clearance, weighted by dollar amount, to be 5 days after checks are issued:

Day	Percent of dollars paid out	Factor (day x percentage)
0 (checks issued)	0	
1	0	
2	0	
3	0	
4	40	1.60
5	30	1.50
6	15	0.90
7	10	0.70
8	5	0.40
Average day of clearance	....	5.10

The State requests $1 million on day 4 and receives that amount on day 5, which is the dollar-weighted average number of days required for checks to be presented at the State's bank, and neither the State nor the Federal Government incurs an interest liability.

(1) In determining a dollar-weighted average day of clearance, fractions of days are rounded to the nearest whole number.

(2) The standards and maintenance requirements for clearance patterns, as set forth in § 205.8, apply for average day of clearance calculations.

(e) *Reimbursable funding.* Reimbursable funding is a method of transferring Federal funds to a State after the State has paid out its own funds for program purposes. After June 30, 1994, reimbursable funding is prohibited, except where mandated by Federal law.

§ 205.7 Requesting and transferring funds.

(a) *Electronic funds transfer.* To the maximum extent practicable, a Federal agency shall use EFT for transfers of funds to a State.

(b) *Minimizing the time between transfer and payment.* A State and a Federal agency shall minimize the time elapsing between the transfer of funds from the United States Treasury and the pay out of funds for program purposes by a State, whether the transfer occurs before or after the pay out.

(c) *Procedures for funding techniques.* Unless otherwise specified in a Treasury-State Agreement, a State and a Federal agency shall adhere to the following procedures for each funding technique:

(1) *Zero balance accounting.* A State shall request funds the same day it pays out funds for program purposes, and a Federal agency shall deposit funds in a State account the same day it receives a request for funds.

(2) *Estimated clearance.* A State shall request funds 1 business day prior to the day it expects to pay out funds, in accordance with a clearance pattern, and a Federal agency shall deposit funds in a State account the next business day after receiving a request for funds.

(3) *Average clearance.* A State shall request funds 1 business day prior to the dollar-weighted average number of days required for funds to be paid out after a disbursement, and a Federal agency shall deposit funds in a State account the next business day after receiving a request for funds.

(4) *Pre-issuance funding.* A State shall request funds not more than 3 business days prior to the day on which it makes a disbursement, and a Federal agency shall deposit funds in a State account the next business day after receiving a request for funds.

(5) *Reimbursable funding.* A State shall request funds only after it has paid out its own funds for programs purposes, and a Federal agency shall deposit funds in a State account the next business day after receiving a request for funds.

(d) *Limiting the amount transferred.* Consistent with a funding technique and with funds transfer procedures in a Treasury-State Agreement, a State and a Federal agency shall limit the amount of funds transferred to a State to the minimum required to meet a State's actual, immediate cash needs.

(e) *Frequency of requests for funds.* A Federal agency shall allow a State to submit requests for funds, or bills, as often as daily. However, this requirement shall not be construed to change Federal agency guidelines defining a properly completed request for funds.

(f) *Prohibition of reimbursable funding requirements.* A Federal agency may not require a State to use reimbursable funding, unless mandated by Federal law.